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EFFECTS ON POVERTY ALLEVIATION OF STRUCTURAL ADJUSTMENT PROGRAMMES, JOB CREATION POLICIES AND MEANS FOR THE PARTICIPATION OF SMALL-SCALE AND MICRO-ENTERPRISES IN INTERNATIONAL TRADE

The effects on poverty alleviation of structural adjustment programmes

Background note by the UNCTAD secretariat

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Introduction

1. The purpose of this note is to try to understand why the process of adjustment has failed to conciliate the objectives of adjustment with the needs of the most vulnerable socioeconomic groups in the countries undergoing adjustment. Although the multilateral financial institutions have acknowledged, beginning in the second half of the 1980s, the importance of protecting or compensating the poor for the adverse effects of adjustment measures, the poor none the less continue to bear the brunt of hardships arising from macroeconomic and structural adjustment. Ten years into the adjustment process, structural adjustment policies as applied so far have, generally, had little noticeable effect on economic growth, despite their high social costs.

2. The goal of adjustment programmes is to change the economic policies of adjusting countries so as to improve their economic performance and lay the groundwork for sustainable development. A two-stage approach to attain that goal has been followed:

- Macroeconomic adjustment (also called stabilization), which aims to reduce both the balance-of-payments deficit and inflation through, for example, exchange rate management, contraction of aggregate demand, tighter monetary policies, budgetary cuts and appropriate pricing policies; and

- Structural adjustment which seeks to achieve a structural transformation of the productive system of the adjusting economy through a shift from non-tradeable sectors to tradeable sectors, the removal or relaxation of government control over the economy, the reform of trade policies and/or the tax system, privatization, etc. (Woodward, 1992).

3. A distinction between the twin objectives of macroeconomic adjustment should be noted: (i) external adjustment which is "the improvement in the balance of payments, usually measured by the reduction of the current account deficit ..." and (ii) internal adjustment which is "the improvement of the domestic economy, particularly in terms of the rate of inflation and the budget deficit." (Woodward, 1992).

4. The shortcomings of an orthodox structural adjustment package, based on a combination of the above described policies and designed by the multilateral financial institutions to address the economic difficulties of indebted developing countries, have been highlighted by many economists and specialists from international organizations, research institutions and non-governmental organizations. The shortcomings, divided into three broad categories are illustrated by figures and concrete examples.

5. The first difficulty arises from adjustment policies that are not appropriate to the economic and social reality of many of the countries in question. This is particularly true of sub-Saharan Africa, as the following observations show:

(a) The promotion of tradeables through free market policies: this policy has had mixed effects on low-income and monoculture economies, benefiting surplus producers but harming food deficit households in rural and urban areas. The problem is further compounded by collective adjustment, as happens when a large number of adjusting countries increase their exports of the same goods at the same time (e.g. coffee, cocoa), increasing the global supply of these goods which results in a reduction of their prices in the international markets (Woodward, 1992). Sub-Saharan countries, for example, which are very dependent on the production and export of non-energy commodities but have been confronted by declining prices for their commodity exports in the 1980s, have had to face even further declines in commodity prices as recently as 1990 (African commodity prices are currently at their lowest level in 30 years). Indeed, in order to offset lower world prices, they have collectively produced ever-greater quantities of export commodities which have flooded the world market and driven down commodity prices to even lower levels. This, in turn, has created a vicious circle of continued increases in output and falling prices: the region's export earnings from agricultural commodities declined from $11.25 billion in 1986 to $10.14 billion in 1989 (Cheru, 1992).

(b) Devaluation and trade liberalization policies: this combination of policies has had the effect of both clamping down on domestic investment - import constraints depriving local industry and agriculture of important inputs such as spare parts and fertilizers - and of stifling domestic production - local market products facing mounting competition from cheap foreign imports and substitutes (Cheru, 1992).

(c) Budgetary cuts following tighter fiscal policies: the costs of these policies have weighed unduly on many of the poor through removal of subsidies, in particular food subsidies, and charges for social services, in particular in the education and health sectors.

6. This combination of macroeconomic policies has been adopted by many countries with little variation, despite differences in their social structure and incidence of poverty. This policy mix has failed in virtually all cases to bring about improvements in the welfare of the population or to augment the share of the poor in the benefits of economic development (Cheru, 1992). A comparison between the two major adjusting areas of Africa and Latin America, reveals striking differences: in sub-Saharan Africa, 46.8 per cent of the people lived below the poverty line in 1985 (set at $370 annual income by the World Bank); in Latin America, the respective figure was 19.1 per cent in the same year (World Bank, 1990). According to another source, 70 per cent of Latin America's 451 million people still live in poverty, 5 out of 10 lack adequate housing, decent health care, potable water and access to education (Time International, October 1991). In Africa as a whole, there were also great disparities between social groups where the richest 20 per cent of the population, during the early 1980s, earned an income four times that of the poorest 40 per cent (Cheru, 1992).

7. The second major shortcoming found in orthodox adjustment is that it aims to correct the imbalances of national economies while ignoring the international dimension of the developing countries' economic crises and their heavy dependence on the vagaries of external forces. It is an incontrovertible fact that "these adjustments have been implemented against a background of world recession and falling commodity prices" (Woodward, 1992). It is not surprising to note that the adjustment strategies have almost invariably failed to halt economic decline.

8. The third major shortcoming of orthodox adjustment is its failure to solve the debt problem of the developing countries. Many of them are still grappling with a heavy debt burden in spite of the various debt-rescheduling schemes and the debt relief and forgiveness granted to some low-income countries under the Toronto and Trinidad terms. Debt often being the major trigger of the need for macroeconomic adjustment in the developing countries, the process of structural adjustment has become "the main channel through which debt problems affect the population of the countries concerned" (Woodward, 1992).

9. This brings us to the sensitive issue of the link between debt and welfare: many economists in various international organizations and institutions along with many political leaders of developing countries agree that reducing the pace of adjustment "through the provision of adequate external financing and debt reduction" could substantially decrease the welfare losses caused by macroeconomic adjustment.

10. What should be highlighted in the link between adjustment, debt and welfare is the burden inherent in debt servicing on the income of society as a whole, including the poor and the most vulnerable. The ratio to GNP of sub-Saharan Africa's debt burden was equivalent to 97 per cent of GNP in 1989 as compared to 46 per cent for Latin America (World Bank, 1991, cited by Cheru, 1992). For some countries, e.g. Congo, Guinea-Bissau, Mauritania, Mozambique and Somalia, the ratio was more than 200 per cent (Cheru, 1992).

11. The amount of the debt has not decreased as expected. Because of a sharp decline in terms of trade, increases in real interest rates and the drying up of private lending, sub-Saharan African debt rose to $161 billion in 1989, from $147 billion in 1988, an increase of more than 9 per cent in one year, (Cheru, 1992). Similarly, the Latin American debt, which amounted to $330 billion in 1982, had reached $420 billion in 1991, despite the efforts of countries in the region to play it down (Time International, 1991).

12. Moreover, the debt structure of sub-Saharan African countries and the heavily indebted countries is composed mainly of official bilateral (41 per cent) and multilateral (21 per cent) debt, as well as debt owed to the IMF and the World Bank, it should be recalled, cannot be rescheduled (Cheru, 1992).

13. The various shortcomings mentioned by no means imply that adjustment is unnecessary. Quite the contrary. Adjustment is not only inevitable but all countries, developing or developed, indebted or not indebted, must adjust their economies constantly in line with the international economic conjuncture and adapt to an ever-changing external environment (Woodward, 1992). However,

as long as macroeconomic and structural adjustment fails to sustain growth; as long as adjustment policies are not conducive to full capacity utilization of an economy's resources through the development of domestic investment; and as long as they do not contribute to increasing the participation and reinsertion of the poor in the productive system so that they gain a bigger share in the benefits of adjustment, it is important that these strategies in their present form be revisited. The adjustment models should be constantly monitored so as to respond to the legitimate needs of the population. They may need to be redesigned to inflict the least social costs and economic hardships possible on the poor.

14. Chapter I deals with the general impact of macroeconomic adjustment and structural adjustment on the income, standards of living and welfare of the poor. It concentrates mainly on the two most affected regions: Africa and Latin America and the Caribbean. There are frequent references to countries in the Asian region as these countries have, in general, derived more benefit from the adjustment process. A section is devoted to the evolution over the past decade of the two multilateral financial institutions. In their attitude vis-à-vis taking into account the dimensions of poverty and poverty alleviation in the formulation of macroeconomic and structural adjustment programmes.

15. Chapter II concentrates on the compensatory measures devised by adjusting countries, with the support of the multilateral financial institutions, aimed at mitigating the possible negative effect of adjustment policies on the most vulnerable social groups. Special emphasis is put on the first and most important compensatory programmes, namely: the Ghanaian PAMSCAD, and the Bolivian Social Fund. In analysing these programmes, the mesopolicies approach is taken, i.e. studying the consequences of macroeconomic policies on special target groups, in particular the poor.

I. STRUCTURAL ADJUSTMENT PROGRAMMES AND POVERTY ALLEVIATION

16. Structural adjustment has had little or no beneficial impact on the economic growth of the majority of developing countries. Except in the Asian region, which exhibited an annual growth rate of 7 per cent from 1980 to 1988, economic performance of developing countries in other regions stagnated during that period: annual growth of GDP for the African subcontinent averaged 0.8 per cent while that of Latin America and the Caribbean averaged 1.5 per cent (World Bank, 1990). In spite of an improvement in the growth performances of some individual countries in the latter two regions during adjustment, the overall growth record there remained poor, justifying the assertion that "the scarce evidence of growth appears to relate very largely to a small group of large, relatively high-income countries, with a substantial degree of industrialization, low dependence on commodity exports and low or moderate external debts. Such countries are not representative of developing countries as a whole, and are increasingly unrepresentative of countries undertaking structural adjustment programmes (with the exception of Eastern European countries)" (Woodward, 1992).

A. The impact of adjustment programmes on the welfare of the poor, in particular on incomes

17. This part of the report reviews the economic factors hindering human development during adjustment, mainly those affecting incomes of the poor - the determinant of their welfare. In general, certain measures included in the policy packages of structural adjustment programmes have imposed considerable losses on incomes and standards of living of the poor in the developing countries. These have included:

- A reduction or loss of wages and salaries;
- Rising food prices;
- A removal or reduction in subsidies, in particular food subsidies;
- A reduction in the provision by the State of social services such as health and education and loss in the quality of these services as Governments shift resources to making payment on the debt; in addition the poor have increasingly had to pay fees and charges for access to public services;
- Increases in indirect taxes; and
- Increases in interest rates on credits.

18. The attention of the reader, however, is drawn to two limitations.

(a) There is a paucity of data on poverty and income distribution. Little is known, for example, of the impact on incomes of the poor following changes in the pattern of social groups' economic activities. Statistical data have not kept up with the rapid changes and shifts in the economic fate of the various groupings, poor and non-poor alike, nor taken account of changes in the social fabric (ILO, 1990; Ghai, 1991; Woodward, 1992).

(b) The term "poor" covers a very heterogeneous group. Analysing the impact of adjustment on their economic status and devising measures to protect them is no easy task if only because of the extreme diversity of the economic categories into which they belong, in terms, for example, of location, sources of income, ownership of assets, health and nutritional situation, educational background, household composition, etc. (Killick, 1990; Woodward, 1992).

19. It is believed that adjustment as a growth-generating engine should bring about an improvement in the incomes of the poor and maximize their welfare over the long term (Woodward, 1992). Unfortunately, so far, macroeconomic adjustment is generally known to be associated with "an immediate and sharp decline in per capita national income" in a majority of adjusting countries in the two regions most severely affected by macroeconomic and structural reforms: Africa and Latin America. Between 1980 and 1989, real per capita incomes fell by about 30 per cent in sub-Saharan Africa and by about 15 per cent in Latin America and the Caribbean, when estimated on the basis of the haemorrhage of resources out of the regions and of the deterioration of the terms of trade (World Economic Survey, 1990). Among

adjusting countries of the African subcontinent, three-quarters had declining per capita incomes; in Latin America and the Caribbean, more than four-fifths of the countries exhibited diminishing per capita incomes (Stewart, 1991). Bolivia, Haiti, Panama, Nicaragua and Trinidad and Tobago, for example, suffered declines of 20 per cent while other countries, including Argentina, El Salvador, Guatemala, Honduras, Mexico, Peru and Venezuela, witnessed a fall of between 10 and 20 per cent (Ghai, 1991).

20. It would thus be relevant to study the main factors contributing to erosion of incomes of the poor during the adjustment process: these involve, among others, changes in (a) wages; (b) prices of basic goods, especially food; (c) employment; and (d) the availability of social services. In looking at these indicators, the wide variety of the national experiences will be taken into account, as appropriate.

(1) Wages

21. Adjustment packages often include reforms that imply reductions in real wages, in particular the real wages of urban workers. In some adjusting countries, resorting to real wage contractions has become common practice as a means to avoid redundancies when the choice lies between lower wage levels and unemployment (Ghai, 1991). Policy reform along such lines is based on the assumption that the poor in urban areas being better off than the poor in rural areas, the bulk of the poor in developing countries being principally located in rural areas, penalizing the urban poor - through wage freezes, reduction of subsidies and price increases - while favouring the rural poor, would restore the rural-urban balance in terms of economic welfare.

22. This reasoning, valid when applied to the adjusting countries of sub-Saharan Africa, where it is estimated that the rural poor account for 80 per cent or more of the total number of poor, is, however, less well-founded when applied to the Latin American countries where the poor are less rural and where, in their majority, they may have been affected by depressed real incomes (Stewart, 1991).

23. Many researchers contend that the burden of wage restraints in the adjustment package undoubtedly impinges on the poor and, considering the fact that the borderline between the poor and the non-poor in developing countries is rather narrow, had prompted the impoverishment of the non-poor as well.

24. In Latin America, real minimum wages fell by 11 per cent between 1980 and 1985 (Ghai, 1991). Evidence for 11 countries in the region shows that average real wages in 1989 were 10 per cent or more below their 1980 level while urban real minimum wages fell over 20 per cent below their 1980 level in 8 out of 11 countries (Stewart, 1991).

25. In Africa, by 1986, the minimum wage of most African countries had declined by at least 40 per cent compared to a decade earlier (ILO, Advisory Committee on Rural Development, 1990). In sub-Saharan Africa, out of 18 countries for which there are data, real wages fell in 16 during 1980 to 1986. In countries such as the United Republic of Tanzania and Nigeria, the fall was especially sharp: in the former, the real minimum wage in 1986

was 35 per cent of its value in 1980 while in the latter the average wage fell by 25 per cent during 1980 to 1985 and the minimum wage dropped by 45 per cent (Stewart, 1991).

(2) Food prices and the rural/urban equilibrium

26. The real incomes of the urban and rural landless poor have been adversely affected by changes in the prices of food during adjustment. Soaring food prices may be a consequence of various elements in the policy package, namely, rising producer prices aimed at improving the rural/urban terms of trade in favour of the agricultural sector and enhancing export crop and food production.

27. In Africa in particular, higher producer prices have been administered at the expense of the standards of living of other groups, mainly wage earners and subsequently, higher food prices not only did not improve equity but worsened the standard of living of small farmers, the landless and urban wage earners who are net purchasers of food, while benefiting mainly large farmers and producers of export crops (c.f. ILO, 1990). They most probably even increased poverty in rural areas as rural populations suffered losses in their welfare through income reduction and fluctuations in earnings. Indeed, small subsistence farmers may have been compelled to shift to the production of export crops to be able to survive, hence becoming purchasers of the food they used to produce; they may have incurred income losses from accumulated debt and contracted consumption loans; and they may have suffered losses of assets, for instance, by having to forfeit their tiny plot and resort to tenancy by offering their labour to larger landowners (Streeten, 1989). Moreover, poor rural households may have had to cope with further income loss due to dwindling remittances from impoverished urban areas.

28. Despite substantial differences in the concentration of land ownership, the implications of this policy for the poor were more or less identical in both Africa and Latin America: in Africa, the survival strategies of families having to weather adverse economic trends and to struggle in order to secure food and cash income, were to undertake economic activities in all sectors of the economy (in the traditional agrarian sector as well as in the urban formal and informal sectors) and to reinforce the existing link between rural dwellers and their family members who had migrated to the city. In Latin America, although the rural-urban income gap was less wide and a slight decline in absolute poverty in rural areas could be observed, rural poverty remained important in some countries (c.f. Brazil). Other sources contend that the proportion of people below the poverty line has remained unchanged in rural areas (54 per cent) while that in the urban areas went up from 21 to 29 per cent (Ghai, 1991). Unfortunately, not enough data and reliable statistics exist to support those rough estimates. As in Africa, the gains from higher food prices have accrued to large and medium-size farmers, to the detriment of agricultural workers and small peasants and led to a deterioration in the nutritional standards of the poor (Peru, Mexico).

29. The case of Côte d'Ivoire is interesting in this connection. The incidence of poverty in that country has been particularly high among food producers and was estimated at 42 per cent in 1980, as compared with 27 per cent among export-crop producers. During the Côte d'Ivoire

stabilization and structural adjustment programmes (1981-1987), this policy reform, despite the fact that it inflicted serious declines in per capita income on all groups, imposed the heaviest loss in per capita income on food producers (4.7 per cent per year) which constitute the poorest majority. Comparatively, the loss incurred by export-crop producers (1.3 per cent per year) was minimal (Stewart, 1991).

30. This policy change in Côte d'Ivoire was considered by the World Bank as a necessary measure to enhance agricultural production and cushion farmers while contributing to improving the rural-urban terms of trade, hence reducing income inequalities between the two sectors (Demery and Addison, 1987). However, the fact that the gains from this policy reform did not accrue to all farmers but solely to export crop farmers to the detriment of food producers which constitute the poorest majority, suggests that export-increasing policies have been at the expense of the poverty alleviation objectives.

31. Consequently, one could argue that correcting domestic imbalances in the short run (namely, the rural/urban imbalance) should not have priority over nor prejudice the long-term intra-sectoral development, especially when it is not a fundamental constraint and when the sector in question incorporates the majority of the most vulnerable, as it does in sub-Saharan Africa. Moreover, in order to minimize the negative impact of adjustment measures aiming at correcting domestic production bottlenecks, they "need to be implemented in conjunction with equitable land tenure systems and the provision of credit, input and extension services to the broad mass of the peasantry and not simply to the relatively few engaged in the production of export crops" (Cheru, 1992). A good illustration of a more equitable adjustment can be found in Malaysia where measures were taken to protect the poor against the social damage caused by the 1970 stabilization programme; they relied, among other compensatory measures, on food subsidies and exemption from credit restrictions (Addison and Demery, 1989).

(3) Employment, unemployment and the emergence of the informal sector

32. Macroeconomic reforms and structural adjustment have often provoked massive redundancies, real wage contractions in the public and urban formal sector and the emergence of an informal sector that absorbs the underemployed and the retrenched workers from all sectors. Employment growth in the formal sector slowed in most Latin American and African countries and declined in many others (Stewart, 1991). In Latin America, rising unemployment and falling real wages increased the population below the poverty line. Their numbers rose from 130 million in 1981 to 150 million in 1986 (ILO, 1990). The hardest hit have been wage-earners. Although they do not necessarily belong to the most disadvantaged groups, they may sustain serious hardship and impoverishment resulting from a lack of adequate compensatory employment policies aimed at diminishing the social costs of such measures. When unemployment is combined with a high population growth rate, as is the case in many African countries, this can lead to increasing unemployment and underemployment.

33. For Latin America as a whole, it is estimated that the conditions prevailing during the adjustment period of 1980-1985 hampered the creation of about 4 million jobs which would have been otherwise created had the

pre-crisis trends continued (Albañez, 1989, cited by Stewart, 1991). "Urban unemployment rates rose sharply in many Latin American countries in the early 1980s ... Out of 16 countries, unemployment rates were above the 1980 level in 1989 in 10 countries and the same or lower in 6" (Stewart, 1991).

34. In Africa, wage employment fell significantly in Côte d'Ivoire, Gambia, Niger, Swaziland and Zambia while in others the increase in the number of jobs was well below the growth in the labour force. Rising urban unemployment dominated the economic scene during the 1980s in such countries as Nigeria, Liberia, Côte d'Ivoire, Senegal, Kenya, Togo, Niger, Mauritius, the Seychelles, et al. (Stewart, 1991).

35. Following the sharp rise in urban unemployment in both Africa and Latin America during the first half of the 1980s, the urban informal sectors expanded considerably and rapidly (4.9 per cent per annum in Latin America and 6.7 per cent per annum in Africa), absorbing retrenched labour in low productivity activities and less technologically sophisticated indigenous enterprises and small industries. In Argentina, Brazil, Colombia, Chile, Mexico, Peru and Venezuela, employment in the urban informal sector grew annually at a rate of 5.2 per cent compared to 0.7 per cent annually in the urban formal sector (Pinstrup-Andersen, 1989, cited by Stewart, 1991). The growth of the informal sector as a shelter for unregistered low-income employment offers an alternative solution to industries facing difficulties and to lower-middle class retrenched workers of the formal sector. "The informal sector has become a kind of catch-all market, merging into a subterranean economy, through which workers are linked to many other segments of society without obligatory reference to the laws or norms which have been publicly established and legally sanctioned to regulate economic relations among parties" (Ghai, 1991).

36. This phenomenon has greatly contributed to informalizing the working class in both regions, blurring the borderlines between the lower-middle and lower working classes and between skilled and unskilled workers. It eroded the incomes of minimum-wage earners especially in Latin America, this not being the case in Africa though - in 1980, wage employment occupied less than 10 per cent of the economically active population (ILO, 1990) - because of the lower dependence of poor African families on wages and salaried employment. It also weakened the bargaining power of Latin American labour movements, undermining the solidarity between skilled workers in larger industries which at times had brought about substantial positive results.

37. Moreover, despite what has been alleged by some economists - that the outgrowth of informal sectors in developing countries are a healthy response to bureaucratic incompetence and administrative bottlenecks - the available evidence shows that economic activities in the informal sectors deprive Governments of considerable tax revenue. According to one estimate, earnings in the informal sector of Brazil, for example, amounted to $75 billion a year, equal to 20 per cent of that country's GNP. The question of how to reinsert gradually these sectors back into the formal sector is not simple.

(4) Government spending on social services

38. Another element in the policy package adversely affecting the poor in particular are budgetary cutbacks on social services such as education and health. In general, in Africa and Latin America - unlike adjusting countries in the Asian region which only moderately targeted budgetary stringency on the social sectors and were generally more inclined to invest in the development of human capital - per capita Government expenditure on health and education declined substantially. "The aggregate effect of the decline in total government expenditure per capita in the two adjusting regions, together with the decline in the share of health and education was a decline in social spending per capita of 26 per cent for Africa and 18 per cent in Latin America in 1980-1985" (Stewart, 1991). Comprehensive data for Latin America and Africa shows that 60 per cent of the countries of the former region experienced cuts in per capita expenditure on health services during 1980-1986 (Albañez, 1989 cited by Stewart, 1991) and 63 per cent in the latter as regards combined per capita expenditure on health and education (Jepersen, 1991, cited by Stewart, 1991).

39. In some adjusting countries of the two regions, the decline of expenditure on health had the negative effect of deterring low-income users of health services, foremost, because of the introduction of user charges and secondly, because of the reinforcement of the pre-adjustment trend of devoting a large share of health spending to curative care and large medical infrastructure to which the poor have little access. The poor, indeed, are more in need of preventive care and less inclined to use hospital and health clinics than the non-poor. None the less, as a result of a combination of donor contributions and national allocations, both regions witnessed an expansion of low-cost health care interventions in immunization, especially child immunization. The rate of coverage is estimated to have increased substantially in both regions - 20 to 30 per cent per year during 1981-1987 which greatly contributed to a decline in infant mortality rates even in countries which have sustained considerable economic difficulties during adjustment (Van Der Hoeven, 1991; Stewart, 1991).

40. As regards education, in general, the share of primary education in total education increased in many countries of the two regions. However, in a large number of African countries, including Zambia, Mali, Sierra Leone and Togo, the combination of general cuts in public expenditure and introduction of fees for primary education led to a considerable fall in primary school enrolment (Van Der Hoeven, 1991).

41. The country case studies of Sri Lanka and Chile, which are examined briefly below, illustrate the diversity of approaches that can be adopted towards social spending in developing countries undergoing adjustment.

The Sri Lankan case

42. Sri Lanka is often cited as an example of high social expenditure, in particular on education and health: at the beginning of the 1990s, expenditures on education and health services exceeded 15 per cent (United Nations, 1993). Policies of free education - Sri Lanka's literacy rate of over 90 per cent is the result of 45 years of free education - and

free or subsidized food provision (rice, for instance) to those most in need have contributed substantially to maintaining good general standards of education, nutrition and health. Throughout the difficult years of recession and adjustment, there has been an attempt to sustain a high level of public spending on health and education.

43. During the 1980s, following the agreement by the new Government to a structural adjustment programme, significant cuts in social expenditure led to a deterioration of the nutritional status of the poorest population and an aggravation of poverty (Sahn, 1987). The shift from the pre-1977 welfare-oriented approach to development, in which equity-oriented policies such as high spending on health and educational services and food subsidies prevailed, to a more market-oriented, outward looking economy, has increased poverty which had already been substantial during the 1970s.

44. The change in policies centred mainly on liberalizing markets and reducing welfare, in order to achieve economic growth. The share of government expenditures on subsidies and welfare programmes was reduced - spending on health, education and food subsidies declined from 38 per cent in 1977 to 22 per cent during the years 1980-1982 - to the benefit of large infrastructure development projects. Despite rapid rates of growth of GDP achieved through this shift to capital-intensive investment programmes, the results of a positive economic performance have not yet trickled down to the poor. Available data show a growing inequality in levels of consumption (Sahn, 1987). It should be noted, however, that, starting from a high level of equality in access to basic needs, Sri Lanka remains a country where social inequality is relatively slight.

45. While economic reforms were necessary to correct domestic imbalances and reduce State domination over the Sri Lankan economy, the policies introduced in order to implement those reforms weighed on the poor and resulted in tangible losses for them. Policies such as a series of currency devaluations and price decontrol, together with the ensuing inflationary pressures, were not accompanied by commensurate increases in wages and the real value of food stamp transfers eroded rapidly. This constituted a threat to the welfare of the poor whose real incomes and standards of living declined substantially (Sahn, 1987).

46. In order to cushion the negative impact of their structural adjustment programmes, the Sri Lankan authorities introduced the Janasaviya Programme in 1989, an anti-poverty programme designed to combat poverty in the rural areas (88 per cent of Sri Lanka's poor live in rural areas) through establishing public employment schemes. These employment schemes have generally been labour-intensive and self-targeted, involving wages at rates below the market level which would attract only the truly poor.

47. Public expenditure on this scheme constituted 3.5 per cent of the country's GDP by 1991 (Islam, 1991). It combined the existing food stamp scheme (the entitlement to a food coupon is conditional on a household supplying 24 days of labour every month on rural public works, such as road construction, irrigation projects, reforestation schemes, etc.) and the provision of a monthly cash payment (SLRs 2,500), to be received by each household over a period of two years. Some 58 per cent of the monthly

assistance was to be used for consumption and 42 per cent (SLRs 1,042) was to be saved for investment purposes. This meant that, at the end of the two years, the accumulated sum would be invested by families in various kinds of income-generating activities (small-scale industries and enterprises for instance) for which they would have received technical training during the two-year period. Currently, there are 7 million foodstamp holders and 165,000 families benefiting from this programme (Islam, 1991 and The Economist Intelligence Unit, Country Report, 1990).

48. What makes Sri Lanka an exceptional and interesting case in this regard is that the Sri Lankan Government has integrated poverty reduction and alleviation goals in the design of its macroeconomic policies. During critical periods where policy reforms had to emphasize economic growth - through enhanced exports and the promotion of the private sector - with a view to reducing the balance-of-payments deficit, measures targeting the poor have been implemented which aimed at helping those who benefited inadequately from economic growth.

The Chilean case

49. The Chilean Government undertook adjustment in the 1980s which spread across two main periods, the 1981-1982 period of the "automatic adjustment mechanism" pursued by the Chilean economic authorities and the 1983-1989 period of adjustment under IMF and World Bank auspices.

50. The 1981-1982 period emphasized deflationary measures through increased real domestic interest rates until early 1982, and devaluation during the rest of the year. High real interest rates and later, sharp real devaluations coupled with a sudden drying up of foreign credits, created chaos in the domestic financial system and had a dramatic effect on domestic production: imports decreased (in constant dollars) by more than 50 per cent; domestic spending fell by almost 20 per cent; output fell by 12.8 per cent. The social costs of this adjustment period were high and the sharp fall in production was followed by a large number of bankruptcies and a steep rise in unemployment which reached nearly 25 per cent of the work force. Wage indexation was eliminated in June 1982 and real wages fell by almost 20 per cent (Meller, 1991; Stewart, 1991).

51. The second adjustment period began in 1983 and Chile agreed to three multilaterally supported programmes: (i) in 1983-1984, an IMF stand-by programme through a Compensatory Financing Facility (CFF); (ii) in 1985-1987, an IMF Extended Fund Facility programme (EFF); and (iii) in 1985-1988, a World Bank structural adjustment loan (SAL). The prior objectives of the first IMF programme were that Chile should reduce its current account deficit and its massive foreign debt at a quick pace. This resulted in external debt servicing levels which approached 20 per cent of GDP and 70 to 80 per cent of exports. It also generated real cuts in public current and capital spending and a decrease in the Government's real wage bill. In spite of the fact that the current account deficit was reduced to 7.3 per cent of GDP in 1984 from the 14.7 per cent of GDP it had reached in 1981, it was far from the projected 4.5 per cent of GDP. Before the end of this adjustment phase, the unemployment rate exceeded 30 per cent and real wages were reduced by almost 20 per cent (Meller, 1991).

52. The 1985-1987 programme aimed at reducing further the current account deficit, this time through trade expansion and an orderly servicing of the debt with a view to bringing down the debt-to-GDP ratio. During this period, the current account deficit fell from $2.1 billion in 1984 to $0.8 billion in 1987 and throughout the period, the World Bank and the IMF supported the Chilean Government in the negotiation of their debt with commercial banks.

53. During 1988-1989, adjustment focused on the promotion of copper exports - which represented more than three-quarters of total exports in 1970, fell to less than half in the 1980s - as well as diversification into other export areas. The export sector increased its share of real GDP by more than five percentage points and Chilean exports increased sevenfold in 1989, from $1.1 billion in 1970 to more than $8 billion in 1989. This change implied a redistribution of income, the big part of it still being captured by the public sector, with around 36 per cent of total exports originating from State-owned copper mines (Meller, 1991).

54. By 1988, real devaluation had affected the purchasing power of the bottom four deciles of income distribution. It inflicted relatively less pain on the middle- and upper-income groups. The upper-income quintile lost 13 per cent less real purchasing power than did the lower 40 per cent income group while the middle 40 per cent income group lost only about 4 per cent less real purchasing power than the lowest 40 per cent income group. A survey on employment covering 3,747 firms and 200,000 employees revealed that during the adjustment recovery workers in small firms in all sectors and regions sustained the largest loss of purchasing power. This led to the argument that "the structural adjustment of the 1980s was implemented primarily in the labour market" (Meller, 1991) and that expenditure-reducing policies during adjustment were achieved through important cuts in unit input costs, namely, reduced labour costs, hence to the detriment of the workers (Meller, 1991).

55. Though macro-policies worsened poverty, there were meso-policies directed at protecting the poor during adjustment which helped mitigate the effects of adjustment. Incomes were sustained at minimum levels by very extensive public-works schemes (Stewart, 1991); because of the high rate of unemployment in 1982, an emergency employment programme was created providing a minimum wage, after taxes, of $100 a month. A positive impact of the fall in real wages was the expansion of output in the labour-intensive sectors characterized by a relatively high output-employment elasticity (Meller, 1991).

56. Despite reduced government expenditure on social programmes such as health, education and housing (expenditure on education and health fell during the period 1982 to 1987 by 15 per cent and 25 per cent, respectively), the Government increased spending on specific programmes in which the poor and vulnerable were targeted (nutrition, immunization, etc.), in particular pregnant mothers and children under six. The result was a continued decline in child mortality, neonatal mortality and child malnutrition. The infant mortality rate dropped from 74 per 1,000 live births in 1973 to 20 per 1,000 live births in 1987, a record decline in Latin America (Castañeda, 1992).

57. Today, the Government considers trickle-down growth with equity to be the main tool to eradicate poverty. The improved economic growth of the 1990s (10 per cent in 1992) is believed to have reduced the number of poor, from 5 million during the late 1980s to 3.5 million currently. Unemployment is below 5 per cent and the official minimum wage is $100 a month.

58 In short, the Chilean experience was characterized by well-designed meso-policies which helped protect the most vulnerable of the poor during the 1982-1983 recession. Emphasis was put on intrasectoral allocation which gave the poor sustained access to basic services.

B. The evolution of the multilateral financial institutions in their attitudes toward poverty and poverty alleviation during adjustment

59. The pre-1985 IMF/World Bank adjustment schemes sponsored structural adjustment programmes which emphasized increasing reliance on market forces and export-led economic growth but paid little attention as to how the economic burden of these adjustment programmes was being borne by the different social groups, including the poorest and most vulnerable among them. Criticism of the IMF/World Bank's overlooking of the hardship that these programmes inflicted on the poor drove the Bretton Woods institutions to shift their thinking and acknowledge the social costs that an adjustment programme may impose on social groups, including the poor. That these social groups should be protected from the potentially adverse effects of adjustment, at least in the short-term, was also recognized.

60. In 1987, the Programme of Action to Mitigate the Social Consequences of Adjustment (PAMSCAD) was initiated in Ghana by the World Bank, with donor support. This led to a series of sectoral programmes in health and education, as well as projects and programmes in agriculture and other directly productive sectors supported by the World Bank (Stewart, 1991; Jolly, 1991). Again, in 1987, the World Bank with UNDP and the African Development Bank created the programme called the Social Dimensions of Adjustment (SDA), designed to improve statistical data collection and analysis in Africa on how the poor were affected by adjustment policies.

61. Nowadays, the need to take into account social and human concerns is widely recognized and the publication of several studies and reports emphasizing those concerns is an indication of this awareness (e.g. the 1990 World Development Report, etc.). Ongoing criticism, however, has highlighted the fact that the Bretton Woods institutions have not made significant changes in the basic design of their policies in terms of the choice of policy instruments and the balance of instruments used (Stewart, 1991). According to many economists and experts from a variety of international organizations and institutions, adjustment that fully protects human needs should be incorporated into the basic design of both macro- and meso-policies. Up to the present, no attempt has been made to explore how human concerns may be incorporated in the macroanalysis. The need to protect the poor during adjustment has, on the contrary, been restricted to and translated into action at the sectoral level only (Stewart, 1991; Jolly, 1991; Van Der Hoeven, 1991; Woodward, 1992 etc.). Moreover, apart from the fact that macropolicies need to take human concerns fully into account, the

necessity of improving statistical data on poverty, and of involving representatives of interested groups, such as trade unions, community representatives, women, etc., in the discussion on adjustment policies and social changes as well as in the preparation of policy framework papers, was emphasized (Jolly, 1991; Van Der Hoeven, 1991).

62. These suggestions have, apparently, not been ignored by the Bretton Woods institutions. Attempts have been made in the design of strategies for the 1990s to overshoot the recommendations of the 1990 World Development Report which focused on labour-using growth and investment in human capital as essential elements contributing to reducing poverty. The World Bank Global Agenda for Poverty Reduction in the 1990s alluded to a direct attack to be undertaken on poverty. In a joint progress report prepared for the Development Committee in 1990, the Bank mentions that it helped Governments "to ensure that poverty aspects are fully incorporated into the design of future adjustment programmes". The Fund, in the same report, states that "many macroeconomic and structural policies improve the position of the poor groups ... A well-designed structural policy package includes social sector reform measures to enhance the nutrition, health and education of the poor ... the Fund has been paying increased attention to the implications of these policies for income distribution and poverty ... the Fund has provided advice to member countries on ways to promote poverty reduction through appropriate macroeconomic and structural policies and on measures to protect the poor and vulnerable groups during adjustment" (World Bank, IMF, 1990). The adoption of these improvements under orthodox structural adjustments remains, nevertheless, uneven.

II. COMPENSATORY MEASURES AND PROGRAMMES DURING ADJUSTMENT: THEIR POSITIVE ASPECTS, DEFICIENCIES AND DRAWBACKS

63. Compensatory programmes were designed to offset the negative impact of adjustment on the poorest groups of a given adjusting country. After the World Bank acknowledged that some groups may be adversely affected by adjustment policies and that adjustment was not always a short process - but could turn out to be a much longer process than originally anticipated - it supported the implementation of specific measures aimed at alleviating the negative impact of adjustment on the poor. Two categories of poor were identified by the World Bank, to whom compensatory schemes should be targeted: the new poor, comprising people affected by retrenchment and who run the risk of remaining unemployed because of the contraction in public-sector employment opportunities at a time when the private sector is not yet able to absorb the laid-off workers of the public sector; and the chronically poor, a group which was poor before adjustment was initiated and who may become even poorer after the process is started (Van Der Hoeven, 1991, Stewart, 1991).

64. Programmes designed to compensate the first category of poor in 30 structural adjustment lendings undertaken between 1986 and 1989 had included: severance payments aimed at financially supporting retrenched workers until new work opportunities arise; retraining; provision of credit and resettlement of laid-off workers in agriculture (Stewart, 1991).

65. Programmes elaborated to benefit the two categories contained one or more of the following components:

(i) public works schemes and food-for-work projects for redundant workers;

(ii) credit facilities for redundant workers;

(iii) income-earning opportunities for women;

(iv) nutrition support schemes, in particular for the benefit of children and pregnant women;

(v) social expenditure reforms, including support for primary health care and the provision of educational material; and

(vi) targeted food subsidies aimed at compensating the poor when faced with cuts in subsidies. (Van Der Hoeven, 1991, Stewart, 1991)

66. The two early and best examples of comprehensive compensatory programmes in which the World Bank played an essential role were the Ghanaian PAMSCAD and the Bolivian Social Fund. These have been replicated with some changes in a number of other adjusting countries, namely Egypt, Madagascar, Guinea-Bissau, Chad, Uganda, Sao Tome and Principe, Haiti and Guatemala (Stewart, 1991).

A. Ghana's PAMSCAD

67. The Programme of Action to Mitigate the Social Costs of Adjustment (PAMSCAD) was conceived in 1987 as part of governmental efforts to alleviate the hardship of Ghana's poorest and most marginal population groups, which had been seriously affected by successive rigorous adjustments, the first Economic Recovery Programme (ERP I) which lasted from 1983 to 1986 and the second Economic Recovery Programme (ERP II) which lasted from 1987 to 1989. Both were supported by the IMF and the World Bank. Although elaborated against the background of a long economic decline, the recession of the early 1980s and the doubling of the incidence of child malnutrition following the drought of 1983-1984, the recovery programme appears to have contributed to the worsening of the living standards and deteriorations in the quality of and accessibility to basic services by the deprived groups. Consisting of the usual package of economic reforms, with the exception that, in the particular case of this country, an increase in public expenditure was made possible through "a revival of tax revenue", the recovery programme succeeded in bringing about sustained growth of GDP of over 5 per cent per year over a five-year period. It, however, totally ignored the sacrifices that weighed upon the poor throughout its implementation, in terms of unemployment (24,000 public workers dismissed), loss of subsidies on fertilizers and introduction of charges in the educational and medical services (Stewart, 1991), to mention but a few.

68. PAMSCAD benefited from international support on the part of numerous donors favourable to reducing the social costs of adjustment and consisted of 23 anti-poverty measures designed to alleviate the plight of vulnerable groups adversely affected by adjustment. The cost of implementing these measures was estimated at $84 million over two years.

69. The target groups identified were: rural households, located in the Northern region, who had poor access to social services and income-earning opportunities, and who suffered particularly from unemployment and hunger; the low-income unemployed and underemployed urban households whose standards of living suffered from the increase in prices of some basic commodities; and retrenched workers. The anti-poverty projects included public works and food-for-work schemes designed to create employment for urban and rural unemployed and underemployed while at the same time creating or rehabilitating needed infrastructures. Other projects were promoted to meet basic needs of vulnerable groups in terms of water, sanitation (hand-dug wells and sanitation were constructed in low-cost areas), health, nutrition and shelter. Food schemes were introduced for pupils at boarding schools "easing the burden of the three-fold increase in parent's contributions following the removal of subsidies under structural adjustment" (Commonwealth Secretariat, 1991).

70. PAMSCAD was meant to be a "quick disbursing, politically popular, poverty-focused and not administratively burdensome" programme (Jolly, 1991). However, PAMSCAD suffered delays owing to administrative bottlenecks and the Government's incapacity to monitor and coordinate numerous projects involving many donors. Moreover, PAMSCAD was urban-biased (two-thirds of the funds were directed to support the urban sector while projects in the rural North, where the majority of the poor lived received only 3 per cent of the funds) and moderately succeeded in reaching the poorest: its nutrition schemes, for instance, touched a small number of malnourished infants (15,000) (for complementary information, see UNCTAD/PA/2, more specifically, pages 11, 17, 18 and 21).

B. Bolivia's Emergency Social Fund

71. Bolivia's economy was greatly affected by the collapse of the world tin market. Consequently, it experienced hyperinflation and drastic losses in GNP and per capita income. The orthodox stabilization programme launched in 1985 succeeded in curbing the annual inflation rate from 24,000 per cent in September 1985 to 11 per cent in 1987 and 21 per cent in 1988 but failed to ignite growth after five years of negative growth. The macroeconomic adjustment hurt the poor because of cutbacks in investment and government spending on social services. Massive redundancies occurred, mainly in the public sector where three quarters of the workers of the State mining company were laid off. Bolivia's Emergency Social Fund (ESF) programme was established in 1985 as a complement to a dramatic structural adjustment reform. Unlike other compensatory programmes ESF used a demand-driven approach to allocating resources, responding to proposals for projects from local and municipal governments, non-governmental organizations and grass-roots groups.

72. At the beginning, the ESF was not designed to be a comprehensive compensatory programme attempting to find solutions to problems in the social sector but rather a short-term mechanism to assist the hardest hit (by a particularly severe adjustment) until the process of sustainable growth was resumed. The programme was set up as a three-year emergency programme (later extended to four) and attracted in the first four years of its existence: "$239.5 million in foreign resources, most of which were channelled through the World Bank in the form of grants" (Graham, 1992). The main objective of its projects was to provide short-term employment and basic social services to those most affected by the austerity plan. Projects covered four broad areas: economic infrastructure, social infrastructure, social assistance, such as school-feeding schemes, and productive support for micro-enterprises, such as group credit schemes.

73. The programme employed a large number of workers from the construction sector, which was hard hit by the adjustment programme. Infrastructure created in sewerage, low-income housing, schools and health posts, etc. benefited 1.2 million people in rural and urban areas which, in a population approximating 7 million, represented a significant number (Graham, 1992) (for complementary information, see also UNCTAD/PA/2, more specifically pages 7, 20, 23 and 26).

C. Criticism of the compensatory measures and programmes

74. Many have reproached such programmes as:

- being mere "add-ons" (Reginald Herbold Green, 1991) or supplements "to mitigate the social costs of an orthodox adjustment programme" (Jolly, 1991) instead of adjustment policies being designed with built-in instruments to minimize their social costs. Compensatory programmes are complementary instruments of an overall macroeconomic policy; they do not replace it. Their success or failure depends on the extent to which restructuring strategies have taken into account the achievement of poverty reduction through an equitable redistribution of the results of the restructuring. It is the choice of policy instruments in the basic structural adjustment package, their sequencing and timing, that determine the impact of adjustment on the poor and most vulnerable. As F. Stewart states: "The fundamental deficiency in the approach is the failure to adapt macro- and much mesopolicy design in order to take into account the impact on the poor ... In particular, the speed of adjustment required, the heavy emphasis on disabsorption rather than switching, the emphasis on expenditure reduction rather than tax increases, the combination of price decontrol and wage control, the reduction/elimination of food subsidies and introduction of user charges are all elements in the basic package which cause major adverse effects. Redesign of this basic package would obviate much of the necessity for compensatory measures";

- having been organized separately from existing programmes which is generally the case for "emergency" situations. Unlike emergency schemes, compensatory programmes, in order to be really effective, should be integrated into existing programmes and allowed to profit

from the infrastructure already in place for their implementation. Existing programmes should not be allowed to die or be replaced with insufficiently developed schemes;

- having failed to narrow the targeting on the poorest of the poor who have not always been the beneficiaries of these programmes. It goes without saying that targeted programmes are more desirable than universal assistance which reaches the poor and the non-poor alike. However, a sharper focus on the poorest has not always been feasible and leakages to the non-poor have been sometimes impossible to avert. The reasons are many: first, narrow targeting implies a well-equipped administrative apparatus basing its functioning on reliable statistics and ready to engage in regular means-testing. It so happens that, in most adjusting developing countries, these elements are unfortunately missing. Secondly, narrow targeting should be, in principle, a more cost-effective exercise than universal schemes which involve heavy budgetary burdens. However, given the fact that, in some countries, universal programmes are well established, more highly focused targeting would inevitably entail a large increase in administrative costs. Thirdly, in many cases, a sharper focus on the poorest has been politically unacceptable (in India and Sri Lanka, for instance) (The Commonwealth Secretariat, 1991, Islam, 1992).

III. CONCLUSION AND ELEMENTS FOR FURTHER DISCUSSION

75. In this last section, it could be useful to identify some of the causes which may have been behind the failure of the adjustment process in its present form. It goes without saying that any suggestion to improve the current system with a view to achieving renewed strong growth which would be supplemented by economic measures converging towards a more equitable distribution of income, would, for a great part, solve the problems of the poor. Among the causes are:

(1) An insufficient investigation into the initial conditions: indeed, the careful study of the initial conditions which characterize an economy before it undergoes adjustment could play a determining role in the design of a future policy package which would adequately fit the economic and social reality of the adjusting country. The following components of an economy need to be further explored jointly by Governments and the multilateral financial institutions, before an adjustment scheme is conceived:

- the pre-adjustment growth pattern;

- the development level of an economy, whether it is middle-income or low-income makes a substantial difference. In this connection, many researchers agree that middle-income countries have been better able to sustain an adjustment process (Mosley, 1991; Woodward, 1992);

- the external conditions generating the imbalances in the national economy, for instance, the world commodities market, interest rates, etc.;

- the productive system and employment composition of the economic sectors;

- the social structure of the adjusting society, in particular localizing the poor and the poorest segments who are likely to be hardest hit by the process of adjustment;

- the land and tax systems;

- the political context.

(2) Insufficient debt reduction and insufficient external finance to support adjustment programmes: most adjusting developing countries have been caught in what is commonly called "the debt trap". Most of them have had to cope with a heavy debt burden aggravated by depleted foreign resources. The combination of these two factors has seriously undermined the implementation of reform strategies, the costs of which have unduly weighed on the most vulnerable groups. Many independent researchers, experts from international organizations, development institutes, non-governmental organizations (NGOs), and political leaders presently agree to suggest that if forgiveness of one third of the debt of middle-income countries such as Argentina or Brazil - which have the resources to pay off the remainder - and forgiveness of all the debt of the low-income countries, such as Nicaragua, Ghana, Nigeria, et al. - which cannot pay in any event - were coupled with more financial inflows to the adjusting country, the normal development process could be resumed and a more equitable sustainable growth achieved (Cheru, 1992; Mellor, 1991; Woodward, 1991; etc.).

(3) An unsustainable pace of adjustment and inadequate external financing: the pace of adjustment has been discussed by many researchers, economists and experts from NGOs. Adequate external financing and a pace of adjustment that would be sustainable are the two indispensable elements of successful adjustment. However, adequate external financing has not been forthcoming at a level sufficient for continuous adjustment efforts to inject a growth spurt into the economies of the developing countries (Van Der Hoeven, 1991).

Other sources have pointed to the fact that foreign loans have been extremely limited in recent years and the lack of resources has rendered the pace of adjustment unsustainable by the poor populations of third world countries (Woodward, 1992). As the pace of adjustment is essentially determined by the amount of the debt to be paid and the amount of external financing available, i.e. of foreign borrowing available during the structural adjustment programme, developing countries are being required to pay their debt by continuously adjusting and generating a balance of payments surplus within the time-frame set by the agreed structural adjustment programme. Many economists and experts recognize that this time-frame is not realistic and has exerted considerable pressure on the vulnerable segments of the developing societies. It was argued, therefore, that longer adjustment periods should be

allowed. This idea has more or less been accepted by the IMF and World Bank and the Second Review of Adjustment Lending by the World Bank has already indicated that periods of four to eight years should be envisaged for some economies so as to enable them to escape the vicious circle;

(4) Insufficient consideration of the impact of the international environment on the national adjusting economies, i.e. the external factors generating the imbalances in the national economy. These external factors - such as the world commodity market or the effect of promotion by adjusting countries of the same exports which may adversely affect international prices of these exports, hence, seriously deteriorating their terms of trade - should be carefully evaluated before an adjustment programme is conceived. In this connection, it is important to highlight that the problems of adjustment "lie as much in the international system as in national economies" (Woodward, 1992). Attempting to correct imbalances at the national level or to deal with the structural rigidities of the national economies only would be equivalent to ignoring a significant part of the problem;

(5) Inadequate policy packages including a combination of measures adversely affecting the populations of the adjusting developing countries: what the current orthodox policies, as advocated by the multilateral financial institutions, have failed to achieve is to adapt policy packages to the social and economic reality of the adjusting country. In order for adjustment to lead to successful results, the design of macro- and mesopolicies should fully take into account the social costs and the distributional effect of a combination of policies and accordingly, incorporate human concerns into the macroeconomic analysis (Stewart, 1991; Jolly, 1991). The following are the most noteworthy combinations:

(i) Tight fiscal policies aimed at correcting budget deficits, combined with across-the board-trade liberalization, can contribute to stifling domestic production and to increasing the incidence of poverty in a country (this is the case of many African and Latin American countries), "thus, the indiscriminate application of market principles under structural adjustment programmes would undermine the human capital foundations of economic growth and hence would increase poverty" (Commonwealth Secretariat, 1991);

(ii) A policy package, including expansion of one sector vis à vis the other, if not based on thorough knowledge of the structural composition of the local population and the distribution of its workforce, is likely to have a devastating effect on the incomes of the poor and might contribute to excluding from the production system segments of the population which may belong to the poorest and most vulnerable groups and which may even constitute the majority of the poor in a given country. For example, systematic enhancement of the agricultural sector, for the sake of improving the rural/urban terms of trade, as has been included in the policy packages of many African countries, has had the unfortunate effect of favouring large-scale farmers who produce export crops to the disadvantage of small farmers who produce food for local consumption and who constitute the majority of the poor. In general, these measures have weakened domestic food production,

food self-sufficiency, hence food security in many African countries dependent on local food production;

(iii) A policy package including devaluations and combined with price decontrol, tight fiscal and monetary policies - i.e. leading to the removal of subsidies and to increases in taxes and not accompanied by compensatory measures for the poor - may have a very destructive effect on the standards of living of the poor and the poorest.

(iv) A policy package which does not include more radical reforms of the productive system could fail to achieve an equitable distribution of the outcome of adjustment. Some adjusting countries need tax reforms, land reforms, technology reforms, etc. in order to be able to ensure that national growth and wealth are distributed equitably. Moreover, more radical reforms may not be achieved without participation at the grass-roots level.

(6) To recapitulate, the design of structural adjustment programmes in terms of policy combinations needs to take into account the reduction of absolute poverty if any results are to be attained. The negative impacts of structural adjustment programmes should not simply be offset by compensatory measures conceived as mere add-ons. Rather, structural adjustment programmes should strive to integrate poverty reduction and alleviation in the basic design of macroeconomic policies.

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